MINUTES OF THE REGULAR MEETING OF THE HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII HELD AT THEIR OFFICE AT 677 QUEEN STREET ON THURSDAY, NOVEMBER 17, 2005, IN THE CITY AND COUNTY OF HONOLULU, STATE OF HAWAII

The Board of Directors of the Housing and Community Development Corporation of Hawaii met for a regular meeting at 677 Queen Street, on Thursday, November 17, 2005 at 9:00 a.m.

The meeting was called to order by Chairman Charles Sted and, on roll call, those present and absent were as follows: CALL TO ORDER/ ROLL CALL

PRESENT: Director Francis L. Jung
Designee Rick Manayan
Designee Henry Oliva
Director Charles Sted
Director Linda Smith
Director Travis O. Thompson

Executive Director Stephanie Aveiro

EXCUSED: Director Charles King

Staff Present: Sandra Ching, Deputy Attorney General
Cora Lum, Deputy Attorney General
Bryan Yee, Deputy Attorney General
Pamela Dodson, Executive Assistant
Janice Takahashi, Chief Planner
Darren Ueki, Finance Manager
Dean Sakata, Finance Specialist
Marilyn Chock, Mortgage & Rental Financing Section Chief
Tom Otake, Acting Development Section Chief
Stan Fujimoto, Project Manager
Chris Sadayasu, Project Coordinator
Leonell Domingo, Project Coordinator
Edmund Morimoto, Construction Management Section Chief
Patti Miyamoto, Acting Administrative Services Officer
Lili Funakoshi, Hearings Officer
Shirley Higa, Board Secretary

Others: Gordan Furutani, U.S. Dept. of Housing & Urban Development
Mike Flores, U.S. Dept. of Housing & Urban Development
Bill Sabalburo, U.S. Dept. of Housing & Urban Development
Richard Mirikitani, Castle & Cooke
Natalie Kiehm, Castle & Cooke
Andrew Furuta, Castle & Cooke
Carleton Ching, Castle & Cooke
Rick Prahler, Castle & Cooke
Micah Kane, Dept. of Hawaiian Home Lands
Larry Sumida, Dept. of Hawaiian Home Lands
Terry Brooks, Homeless Solutions Inc.
Marvin Awaya, Pacific Housing Assistance Corporation
Keith Kato, HICDC
Michael Ullman
Luisa Wieckowilz, ITOR
Patricia Deliz, ITOR

The Chairman declared a quorum present QUORUM

OFFICE OF INFORMATION PRACTICES (OIP)

Chairman Sted noted the new format of the Board's agenda that reflects the agency's effort to implement some of the recommendations made by the Office of Information Practices (OIP) such as the amount of information that is provided in the agenda to the general public. He noted the following changes:

- Office of Executive Director Report lists 22 subsections of the Report rather than as a single line item;

- Finance Subcommittee Report lists the subject matters that will be discussed; and

- Executive Session discussion that will involve matters that are already of a public nature has been described more fully with the appropriate civil case number.

The Chair noted that HCDCH's current agenda format might be revised in the future. He commented about the agenda by the Hawaii Tourism Authority that has "Discussion and/or Action" for its items; that allows the Board more options in its discussions that may be considered.

APPROVAL OF MINUTES - 10/20/2005

Director Thompson moved, seconded by Director Jung

> That the minutes of the Regular Meeting held on October 20, 2005 be approved as circulated.

The motion was unanimously carried.

OFFICE OF EXECUTIVE DIRECTOR REPORT

MEMORANDUM OF AGREEMENT - ENDED 9/30/2005

Executive Director Stephanie Aveiro stated that the Memorandum of Agreement (MOA) ended September 30, 2005 and that Acting Administrative Services Officer Patti Miyamoto will give her final report on the MOA.

Ms. Miyamoto reported that HCDCH received a 76 percent passing score under the Public Housing Assessment System (PHAS) for fiscal year 2005. As a result of this score, HCDCH is now considered a Standard performing Public Housing Agency (PHA). The MOA has been officially closed by HUD as indicated in their letter to the Executive Director dated November 4, 2005. An Improvement Plan (IP) will be developed as all targets and strategies in the MOA were not met by September 30, 2005.

The Board congratulated staff for achieving the Standard performer status.

Gordan Furutani, Director, HUD Honolulu Field Office, then addressed the Board. Mr. Furutani extended his congratulations to the Board and staff for their tremendous efforts in reaching its goal to remove itself from a troubled agency status to becoming a standard performing PHA. He noted that the current Board had faced a tremendous challenge when it was first appointed as the agency had the stigma of an underperforming agency that precluded the agency from opportunities and accessing HUD programs that were offered to standard performing PHAs. Mr. Furutani commented that this was a huge accomplishment and had wanted to personally convey his congratulations to the Board. He also noted HUD is very pleased with the performance of HCDCH and its staff will continue to work with HCDCH in providing assistance to meeting other challenges that HCDCH may face in the future. He ended by stating that he hoped that he would be able to return to HCDCH after it reaches another milestone.

Mike Flores of HUD also pointed out that one area, which showed significant improvement on the part of the agency, was the physical inspection scores. Of the 65 federal projects, 54 projects received a passing score of 60 or better as compared to 38 last year. Additionally, 53 projects had displayed improvements from the year before. The staff of both HCDCH and HUD, the area managers for their efforts should all be commended for these big accomplishments as it was a cooperative relationship between the two parties in meeting this common goal. The next goal will be the Improvement Plan.

The Chair on behalf of the Board, thanked HUD representatives for their support during the past year.

IMPROVE-MENT PLAN

Ms. Aveiro stated that the Improvement Plan includes areas which staff needs to continue to focus on as the agency strives to becoming a High Performing Agency.

Ms. Miyamoto then reviewed the Improvement Plan (IP) that begins December 1, 2005 through September 30, 2006. The IP consists of the following tasks:

1) Appointment of the Resident Commissioner;

2) Hire a Contract and Procurement Officer;

3) Reduce Tenant Receivables;

4) Improve the timeliness for evictions;

5) Develop strategy to reduce unit preparation time;

6) Increase occupancy to 95% for all projects;

7) Hire a Maintenance Manager;

8) Generate work orders immediately after completion of unit and systems inspections;

9) Correct or abate emergency work orders within 24 hours; and

10) Resolve problems with current information systems and position HCDCH to conduct business electronically.

Director Jung asked if plans have been made for staff as the reorganization is implemented and staff needs to interface entirely differently with the IP.

Ms. Aveiro stated that although staff will be involved heavily with the Legislature during the first six months of the IP, it will become the primary focal point once the split occurs as the public housing agency will concentrate fully on meeting it successfully.

Director Thompson asked if there would be a more detailed plan of how staff intends to accomplish the goals and how it can measure its progress. Ms. Aveiro stated that staff will be focusing on the 10 tasks monthly.

The Chair noted that item no. 6, 95% occupancy appears to be very aggressive relative to units that are in very poor condition.

Ms. Miyamoto stated that the agency was not able to meet the goal before and HUD has therefore asked for its inclusion in the IP.

Ms. Aveiro stated that currently the occupancy rate is 87% (approximately 700 vacant units of the approximately 5,000+ available units). Staff is focused on these units and has plans to use the Correctional Industries workforce in order that HCDCH staff can then focus on other repair work.

Director Smith commented that 5.7% vacancy rate is the average for the private rental market on Oahu and 7.2% statewide.

Mike Flores of HUD commented that HCDCH has a long waiting list and the demand for the units continue to rise. He agreed with the Chair that the 95% occupancy rate is a stretched goal considering the condition of the public housing units. However, HUD will continue to work with HCDCH to get as many families on the waiting lists into the units.

Ms. Miyamoto clarified that the IP is still in a draft format that HUD needs to formally approve. Once this is in place, staff can provide more details as to how it intends to meet the 10 tasks of the IP.

Ms. Aveiro added that staff already has some plans to meeting the IP and it can begin sharing its plans and details with the Board at its next Regular meeting.

Director Thompson commented that based on the assumption that HUD will approve the IP, the planning process to meet these goals should be immediate as the urgency to provide housing for those on the wait list is great. He noted the reduction of the average unit turnaround time to 105 days is very poor when there is much homelessness throughout the state.

Ms. Aveiro acknowledged that the 105 days is not acceptable, however, when units that have not been occupied for 3,000+ days due to extensive repair work that is needed is averaged into the overall average, it can raise the average turnaround time. This is an area that needs to be addressed in order that the true turnaround time is reflected.

Mr. Flores acknowledged that there are some units that have been vacant for 3,000 days and when it is used in the equation, it skews the average. He suggested that a separate report which shows a unit that becomes vacant today, how long is the turnaround time as this may be a better indication of how well the staff is doing in terms of unit turnaround.

The Chair referred to a comment made previously by a State Legislator that the Board minutes of its meetings are the only thing that indicate to the public the Board's knowledge and demands of staff in terms of the Board's expectations of staff. As a result of this, he wants to ensure that the minutes be more detailed to reflect the Board's concerns, involvement and directives/demands to staff are included.

Ms. Aveiro continued with her report on staff relations and the agency split. She referred to a previous Board meeting wherein she had proposed to have the State low-income housing projects be with the Finance & Development (F&D) side rather than the Public Housing (PH) agency. Discussions have followed with the Department of Budget & Finance (B&F) and Governor. B&F expressed their reluctance to having a project management entity within the F&D agency as it was viewed as a duplication of duties with the PH agency.

Director Thompson asked since there has been no discussion on staff relations, whether or not the right time to discuss the split would be when agenda Item No. 7 is discussed.

Ms. Aveiro stated that it was the meetings that she wanted to highlight to the Board as part of staff relations. However, the discussion can wait until Item No. 7 is discussed.

COMMUNITY RELATIONS/ LEGISLATIVE TASK FORCE

Director Smith referred to the Community Relations section of the Executive Director Report if there were any outcomes regarding her meeting with the Institute of Human Services (IHS) and/or the Legislative Task Force. Deputy Attorney General Sandra Ching stated that Ms. Aveiro could respond to the question although it was not listed as one of the highlights of the Office of Executive Director Report. Ms. Aveiro acknowledged that there was a meeting with Lynn Maunakea of IHS and Sandra Miyoshi of the Homeless Programs Office regarding the Governor's Developers Task Force and the affordable housing needs of the community.

The Chair clarified that as a result of the opinion from the Office of Information Practices (OIP) discussions were held between himself, the Executive Director as well as the Deputy Attorney General as to how to meet the concerns of OIP. As staff begins to address the concerns of OIP, it may need clarification from the Deputy Attorney General relating to the Sunshine Law. Director Jung commented about the opinion by OIP that the Chair had referred to. He asked if he would be precluded from responding or bringing up a new subject that he has not communicated 30 days previously that would not be on the agenda. He cited as an example of asking questions of guests such as HUD on topics that may not have been listed on the agenda. He further commented that clarification of this is necessary as the Board has fiduciary duties to perform and does not always or practically have 30 days in advance to anticipate the discussions thereby affecting the ability to function effectively with the Executive Director, the Chair and other governmental entities.

Ms. Aveiro shared the concerns expressed by Director Jung in attempting to implement the recommendations by OIP. She then expanded on her meeting with IHS stating that it was to discuss the outcomes of prior meetings that the Governor had with developers as well as other interested parties related to the homeless issues. These meetings have brought the homeless issue to the forefront whereby IHS has extended its network to include developers taking an active part in resolving the issue. One example is a facility being built on the Island of Hawaii by Stanford Carr for the homeless population. The IHS Board of Directors now include Mike Jones of D.R. Horton who can bring a wealth of resources to solving the homeless issues is another example of how their support has broadened to the private sector.

Regarding the Legislative Task Force, Ms. Aveiro stated that staff had visited sites with the Task Force on the islands of Hawaii and Kauai. Director Charles King accompanied the Task Force on Kauai. A variety of projects were visited such as the State low-rent, Rental Housing Trust Fund projects, tax credit project or private sector projects. The Task Force is aware of how difficult it is to manage properties that are targeted for the low-income with little or no subsidy payments.

CONTRACTS AWARDED

Director Thompson noted that four contracts were awarded to Hawaii Affordable Properties. He asked if the award of contracts were made on a competitive bid process and if staff is still faced with a lack of property management firms submitting bids for the work.

Ms. Aveiro stated that there is very little interest from the private sector mainly due to the State requiring them to indemnify the State as a basic requirement. This is a huge barrier preventing the private sector from working with the State. Director Thompson asked if this would be something that should be considered by the upcoming Legislative Session to generate more interest among the private sector for managing the public housing projects.

Ms. Aveiro stated that could be discussed with Attorney General Mark Bennett to consider whether or not the State can share more in the risk of the management of the properties.

Director Jung commented that existing HUD guidelines for resident management corporations may solve this and implementation of these guidelines may be a direction for staff to take.

VACANCY REPORT

Director Thompson asked about the vacancy report and requested the definition of "Maintenance Hold" as there are 220 units categorized as such. Ms. Aveiro stated that vacant units are categorized according to the severity of the work that is required to fill them. The "A" category are units that require little work for occupancy; "B" would entail more work such as electrical and "C" are those units that are Maintenance Hold that require extensive work to have them ready for occupancy.

Director Thompson further asked about units identified as Capital Fund. Ms. Aveiro stated that those are units that are part of a major renovation project that Capital Funds will be used such as roofing repair work.

Director Thompson stated that he would like to see a plan as to how staff intends to reduce the number of units that are being repaired. There has been little progress in this area and asked what the problem is that prevents progress from taking place.

Ms. Aveiro responded that staff has discussed a resolution to the problem and it can present a written plan for the Board to review. This plan is comprised of various actions such as leveraging the Capital Fund by using it as security for bonds to generate revenue; asset management plan that may involve selling a project to make necessary repairs of another project; reorganizing assigned work load to not just two large capital improvement projects but to units of numerous projects statewide.

Director Smith commented that since HUD is in attendance, they can be asked if they would allow the use of Capital Fund monies to pay for overtime for the maintenance staff of the Department of Accounting and General Services (DAGS) to expeditiously turn around some of the units as in the past that numbered 135 units that were able to be readied for occupancy. DAGS may be willing to deploy their staff immediately in order to expedite the availability of these units that are waiting to be repaired.

Director Thompson commented that late submittals such as the reports by Construction Management Section (CMS), Property Management & Maintenance Branch (PMMB) and Evictions and Appeals Summary were distributed at the beginning of the meeting. As there has been no time to review these reports in order to ask questions of staff, he did not know how it should be handled appropriately.

Ms. Aveiro acknowledged the importance of submitting all reports to the Board in the initial distribution of the agenda and apologized to the Board for the lateness in some of the reports.

RECESS

The Chair then recessed the meeting at 9:48 a.m. to allow the Board members to review the PMMB report; meeting reconvened at 9:55 a.m.

PROPERTY MANAGEMENT & MAINTENANCE BRANCH REPORT

Designee Oliva asked about the Micronesian community and identifying members of its leadership that staff can work with. Ms. Aveiro stated that the Consul General's office is creating various committees that HCDCH can work with in its relationship with the Micronesian community in the various projects.

Executive Assistant Pamela Dodson stated that the Property Management & Maintenance Branch Chief position is currently vacant and she is the Acting Chief until the position is filled. The position will be advertised in the upcoming Sunday's newspaper.

RECESS

The Chair again recessed the meeting at 10:00 a.m. to allow the Board members to review the CMS report; meeting reconvened at 10:05 a.m.

CONSTRUCTION MANAGEMENT SECTION REPORT

Director Thompson recalled that at a previous Board meeting, he had commented that by deleting the projects that are basically completed, would allow the Board to focus on the few that are currently active. However, the CMS report remains the same and changes have not been made that would reflect the comments that were made.

He further commented that by deleting those projects that are completed or near completion would then allow the Board to focus on the projects that are being done by CMS.

The Chair expressed his viewpoint that by having all the projects listed that are near completion can be monitored by the Board in order to encourage staff to take whatever action it takes to have them 100% completed.

Director Thompson agreed however he noted one project listed as 100% completed that should be deleted. He suggested a two-part report, which may show a listing of projects that may need minor work for completion.

Ms. Aveiro stated that staff has removed some of the completed projects however it is important that the Board be informed of the progress or delays to the project. She cited the first project that was listed as completed with 98% paid to date. This is one that would need to be discussed in Executive Session due to its serious nature. She also cited another listing of 100% completed that is very important to a State Senator that she had wanted to report to the Board. Next month's status report will not show this item. However she is using the report as a tool to better manage CMS.

Taking Director Thompson's comments into consideration, the report can be changed to reflect what is actually happening such as those that may be problematic; ones that staff is focusing on; and ones that are on schedule and need not worry about.

Director Smith asked about the Physical Needs Assessment listed on page 2 of the report. CMS Chief Edmund Morimoto stated that all State projects will be evaluated to determine what is being done right and what is being done incorrectly. Repairs and/or discrepancies that are identified will be part of a program that will be used to request for funds from the Legislature. The Federal projects were identified by the IBM study done in 2003 that staff has found it to be very useful. Ms. Aveiro stated that it is estimated that it will need $300,000 to do a similar study for the State projects that will prioritize the projects for both Capital Improvement and Repair & Maintenance.

Designee Manayan asked if there is a policy regarding change orders that would prevent contractors from bidding at a low price and then submitting change orders that exceed the original bid amount by a large amount as in two of the items in the CMS Unit I report.

Mr. Morimoto stated that should a change order exceed the original bid amount by 20% then staff needs to receive approval from the State Procurement Officer before it can proceed.

Bill Sabalburo of HUD stated that HUD does not have a policy in place but a change order of ten (10) percent of the contract amount is generally acceptable.

RECESS

The Chair called for a recess at 10:10 a.m. to allow the board to review the Eviction and Appeal Summary; meeting reconvened at 10:15 a.m.

EVICTION AND APPEAL SUMMARY

Director Smith asked if the report included both State and Federal projects to which Hearings Officer Lili Funakoshi answered yes with a total number of units as 8,832. Evictions for rent, non-rent and appeals statewide totaled 83 or approximately 1% of the tenant population as of October 31, 2005.

Director Thompson commented that the balance of $92,056.18 did not reflect the breakdown by projects of $84,203.53. Ms. Funakoshi answered that there was a difference of approximately $1,260 as the managing agent had just informed her office that the tenant had passed away so the outstanding balance was reduced by that amount.

Director Jung commented that the 83 evictions or 1% of the tenant population, is extremely low and very good. Ms. Aveiro stated that these are the cases that the Hearings Office has received; there may be others that the area offices are currently being processed.

Director Thompson referred to the Analysis of Collection Performances Report that showed outstanding balances of $4.5 million in uncollectibles. He asked at what point in time would the agency be able to delete these numbers from the books. Ms. Aveiro stated that staff is working with the Attorney General's Office in reducing the Tenants Accounts Receivables (TAR).

Director Thompson further asked how the TAR numbers relate to the Eviction report that shows a current balance of $92,056.18. Ms. Aveiro stated that once the tenants are evicted for failure to pay for rent, the balance is then added to the TAR.

FINANCE SUBCOMMITTEE REPORT

Director Thompson stated that there was no report on the Capital Fund Report. Regarding the Section 8 Fund Program is beginning to review numbers that would show how much assets and liabilities the Program has. Currently it shows the number of assets total approximately $8.3 million and the Fund equity is approximately $4.3 million so there is approximately $4.0 million.

AUDIT SUBCOMMITTEE REPORT

Director Thompson reported that there is a draft audit report that is now awaiting three ancillary reports such as the HHA Wilikina Apartments Project audit. It appears that the audit will be completed ahead of schedule.

OFFICE OF EXECUTIVE DIRECTOR REPORT

Director Smith asked when the Finance and Development Status Reports of the Office of Executive Director (OED) report would be discussed.

The Chair clarified that with the OED report, Executive Director Stephanie Aveiro will highlight items from her written report that she believes the Board should be made aware. The Board may ask any questions of the Executive Director on items that she chose not to highlight that month. As Ms. Aveiro had chosen not to highlight either of the Finance or the Development Status Reports, it was not discussed earlier. However, since Director Smith has a question, the Board will discuss the status reports at this time.

Director Smith then referred to the Finance Branch Status Report which indicated that the 2003 allocation of Low Income Housing Tax Credits (LIHTC) for the Nanaikeola Senior Apartments Project was returned. Finance Branch Manager Darren Ueki answered that under LIHTC program, the developer is required to start and complete the project within two calendar years. If this is not done, then the tax credits must be returned. The developer had faced numerous obstacles and it was decided that the credits be returned. The project is proceeding to go forward and the developer may decide to apply for the tax credits at another time.

Director Smith further asked what is the number of tax credits that was returned and the number of units for the project. Mr. Ueki answered that he will get the answers to her at a later time.

Director Smith also asked about the sale of units to eligible Section 8 applicants. Mr. Ueki answered that under the Section 8 Homeownership Program, there are two applicants that may qualify under this program. He commented that when the real estate market was on a downturn, the agency purchased and repaired approximately 22 units, and then rented them out on a month-to-month basis. Now that the real estate market has turned, staff is considering offering these units for sale under the Section 8 Homeownership Program at affordable prices. It would be with either a shared appreciation or deferred sales price where the Corporation would not receive any funds at the present time but the Section 8 participants would become homeowners. Mr. Ueki further stated that a real estate broker would need to be procured before staff proceeds with the sale.

Director Smith asked what would the real estate broker do for the agency. Mr. Ueki answered that the broker would basically market the units for the agency.

Director Smith asked if there is a pre-approved list of people who may be interested in purchasing these units. Mr. Ueki stated that there was no list but that would be one of the tasks that the real estate broker would do.

Director Smith asked how quickly could the units be sold. Mr. Ueki stated that staff will move forward with obtaining the services of the real estate broker by December 2005.

Director Jung asked what is the commission that would be paid to the broker as in the private sector it would be 6% of the sales price. Mr. Ueki stated that it is a negotiable item as the units are affordable. Director Jung further asked if it would be possible to auction the 22 units without incurring any costs of a broker due to the high demand of the current real estate market.

Ms. Aveiro stated that staff had intended to sell the units to those participants who have already completed the Section 8 Homeownership Program who have not been able to locate a home to purchase. Director Jung asked if there already is a list of potential buyers, then why would the services of a real estate broker be needed.

Mr. Ueki stated that there has been some interest expressed by non-profit agencies, together with the two Section 8 Homeownership Program participants, but this would not account for the entire 22 units.

The Chair commented about the limited resources that the agency has and the need to get outside professional help would assist staff immensely. Procuring the services of a broker may get the sales of all 2 units done faster. However, staff can take the comments made by all members of the Board and then use it to guide them to develop a plan as to how to sell the units.

Director Smith asked if there is a list of at least 22 participants who have completed the Section 8 Homeownership Program that could purchase the 22 units.

Mr. Ueki stated that the Section 8 Homeownership Program began with 2,000 that has been narrowed down to two families who are qualified to purchase. There may be 20-25 families who have qualified but have not completed the final phases of the program that would enable staff to award them the Section 8 vouchers. Together with the non-profit agencies that have expressed interest as well as the Department of Human Services for one of its programs, the number of qualified applicants does not total 22. He agrees with the Chair that the lack of resources by staff, which is only two staff persons who oversee this program, a broker would be more efficient to sell the units. Mr. Ueki further stated that in response to Director Smith's previous comments about the lengthy time to sell the properties, he had recommended to the Executive Director to procure the services of a broker to accelerate the sales.

Director Jung expressed his concern about the amount of time and effort that staff had to expend to process 2,000 interested parties and only two families qualified in the end.

Director Thompson expressed his concern about a real estate broker as it would require the bidding process that would add another 2-3 months to the process in the current seller's market.

ASSET MANAGEMENT SUBCOMMITTEE

The Chair commented that since there was no one from the general public who were in attendance to hear discussion on the Asset Management Subcommittee Report, that it be moved to a later part on the agenda.

RECESS

Director Jung moved, seconded by Designee Oliva

That the meeting be recessed at 10:30 a.m.

The motion was unanimously carried.

The Chair reconvened the meeting at 10:35 a.m.

APPROVAL OF DEVELOPMENT AGREEMENT TERMS BETWEEN CASTLE AND COOKE HAWAII HOMES, INC. AND HCDCH FOR THE DEVELOPMENT OF THE

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors:

A. Approve the terms of the Development Agreement as described in and attached to the body of this For Action.

B. Authorize the Executive Director or Designee to finalize, make non-substantial revisions and execute the Development Agreement.

Subject to:

A. Compliance with all rules and regulations of Chapter 201G and HCDCH.

B. Such other terms and conditions as may be required by the Executive Director.

THREE VACANT PARCELS, TMK'S: (1) 9-1-16:36, 64 AND 59, WITHIN THE VILLAGES OF KAPOLEI

Designee Manayan moved, seconded by Designee Oliva

That staff's recommendation be approved.

Acting Development Section Chief Tom Otake stated that staff is requesting approval of a Development Agreement between HCDCH and Castle and Cooke Hawaii Homes, Inc. (Developer) for the development of three vacant parcels within the Villages of Kapolei. This Agreement was a result of numerous discussions with the Developer and was finalized on or about October 26, 2005. One hundred percent (100%) of the units will be affordable rental and for sale units.

The Developer has agreed to developing the three parcels as follows:

- Parcel 1 - 72 rental units, with one reserved for the resident housing manager;

- Parcel 2 - 110 For Sale units targeted for households with incomes at 120% and below of the HUD area median income (AMI) at the time of sale; 72 rental units with one unit reserved for a resident housing manager; and 100 rental units targeted 100% and below of the HUD AMI; and

- Parcel 3 - Approximately 118 For Sale units targeted for households with incomes at 140% and below of the HUD AMI at the time of sale.

In summary there will be 228 For Sale units and 244 Rental units for a total projected number of units in the three parcels as 472 units. Approximately 20 units were reduced from the original Request for Proposals submittal in order to include more family-sized units. The developer may develop the maximum number of units as long as it conforms to the zoning regulations of the City & County of Honolulu (C&C). The rental units will be developed, rented out and managed by the developer or the non-profit agency that is associated with the developer.

Mr. Otake further reported that the developer intends to develop the For Sale properties first and thus the fee title to the property shall be conveyed to the Developer before the completion of the rental housing units. This fee title will be encumbered by a second mortgage in the amount of $300,000 per acre for the For Sale parcel that is conveyed. A separate escrow account will be established and the second mortgage partially released to the developer upon the closing of each For Sale unit payment into the escrow fund. In lieu of this escrow account, the developer may opt to issue an irrevocable letter of credit (ILOC) for either the value of the transferred For Sale parcels at the agreed upon $300,000 per acre plus the projected profit for those portions of the project until the rental units are completed or the appraised value of the For Sale parcels.

Mr. Otake then reviewed the ground lease terms as follows:

- One Dollar ($1.00) per year for 55 years;

- Units shall remain as rental housing units for the first 30-year period; the remaining 25 years shall continue as affordable rentals, subject to the approval of HCDCH; and

- The ground lease shall automatically terminate if construction has not commenced by June 16, 2010, subject to extension approved by the HCDCH Board of Directors. This date is five years from the initial approval by the HCDCH Board of Directors.

Other highlights of the agreement are:

- The purchase price for the For Sale housing portions of the project land is Zero Dollars ($0.00);

- The developer and other contracting entities shall receive general excise tax exemptions upon approval by the Board;

- The developer shall invest $3 million from the net proceeds as equity toward the development of the Rental Housing units; and

- The developer shall secure its own interim loan as well as permanent financing for each of the For Sale units.

Director Smith asked if there were any differences in the Development Agreement as compared to previous Agreements for a master planned development. Mr. Otake answered that there was very little difference from ones done in the past with the exception that financing was provided for past developments and that there is no guarantee to the developer that there will be tax credits awarded by the Rental Housing Trust Fund by the Finance Branch of HCDCH.

Director Smith also asked when was the last time a development agreement was executed by the agency to which Mr. Otake answered that it was approximately 5-6 years ago.

Director Smith then asked the Developer how this agreement differed from ones that they have had with a private landowner. Richard Mirikitani, Corporate Counsel of the developer stated that the State was well represented by the Office of the Attorney General. The development agreement was typical of one used with the private sector with one notable difference was that the developer had fewer rights and remedies.

Director Jung asked if the $0.00 fee simple title of the land for the For Sale homes was typical as well to which Mr. Mirikitani stated that it was not.

Director Jung further asked if the absence of a purchase price was typical for this type of development. Mr. Mirikitani stated that he believed that it was an essential part in making the economics work for the transaction.

Director Jung noted that the proposed development area is approximately 20 acres. He asked how the limitations that are placed on the developer and the remedies that are absent in the Agreement differ from other development agreements that the developer has had with the private sector.

Mr. Mirikitani stated that there was considerable discussion on the various indemnities and waivers that was not in other development agreements that the developer had in the past. Essentially the developer has waived its rights to all indemnities and has no remedies other than the ability to request for extension of time or similar request of that nature. However the developer is confident about its ability to perform and has reconciled itself to the terms of the development agreement

Director Smith referred to page 7 of the For Action that indicates that the Developer shall not begin construction of any Phase of the Project prior to the completion of the items listed in the Agreement. She asked if this is a standard procedure with the private sector where the developer is unable to do some initial work such as grading, clearing, or begin work on the infrastructure.

Natalie Kiehm, also representing the developer, stated that in general, the terms are typical; however, there is an added layer of approval in the process that enables HCDCH to approve plans, contractors, subcontractors, and items of this nature. Other than this added step, in general, the Agreement is typical of what has been used in the past.

Director Smith commented that after reading the Agreement, it appeared that it was extensively detailed and highly prescriptive and questioned whether this is typical for such a large development on an expedited timetable and if this is an approach that should be followed.

Mr. Mirikitani stated that a developer would seek as much flexibility as possible, however, some of the provisions did allow requests for extensions or waivers from the Board that makes them confident that they will be able to produce within the confines of the Agreement.

Director Thompson agreed with Director Smith as to the details included in the Agreement that HCDCH should allow the developer to proceed without having to always seek the approval of HCDCH in every step of the development. He further stated that some conditions state that construction must start by June 16, 2010 and other conditions that state construction must be completed by June 16, 2010 making it somewhat confusing to decipher.

Mr. Mirikitani commented that it is not abnormal to seek as much protection as you can if you were the State. As this is an agreement that was used by other developers who may not have had the track record that this Developer has had in Hawaii, and if there are doubts about the ability of the contractor or developer to perform, then a number of these very restrictive provisions are prudent and necessary. The developer did not view the provisions as being targeted for them individually, but as a general agreement, and decided to agree to the terms and conditions. He further stated his pleasure that the Board is of the opinion about giving the developer more flexibility, and there may be a need to request this of the Board in the future.

Director Smith appreciated the protection of the State, however, it appears to be too restrictive when the developer must process every printing request through HCDCH that includes literature and marketing material. Unless this is a statutory requirement, it is hard to understand why the level of protection needs to have staff pre-examine every piece of paper before the Developer is able to go forward.

Mr. Otake stated that much of the language in the Agreement was used in the past. He expressed his appreciation of Mr. Mirikitani's candor, as except for the Developer who did Village 1, the other developers were mainland firms that are no longer doing business in Hawaii. HCDCH continues to have problems with these firms that have warranted such a high level of protection of the State. He acknowledged that the document is very restrictive and should any changes be proposed, then it would need to be done by either the Office of the Attorney General or an outside legal firm. Mr. Otake also commented that it was his understanding that the Department of Public Safety has done all printing work for the state; however if this is not correct, then it will not be implemented.

Executive Director Stephanie Aveiro commented that as in other situations, the more details that are included would assist both parties in the process. She cited other agreements that are silent in certain areas and other areas may be subject to interpretation that have led to much difficulty in finding resolution. She agreed that the printing detail may need to be changed, however, the detail in general is necessary for the size the project.

Director Thompson commented that one clause in the Agreement stated that "if the Developer elects to terminate this Agreement, he shall be entitled to recover from HCDCH all costs actually incurred." This is an interesting provision as it clashes with the detailed provisions in the Agreement as this now provides the Developer to end the Agreement and HCDCH will pay all costs.

Mr. Mirikitani commented that this is one of the few remedies that are in the Agreement; however if the Developer terminates the Agreement for no valid reason, then it will not be reimbursed for its expenses. The reimbursement of expenses is where there would be more faults on the agency or under certain circumstances.

Mr. Otake added that part of the indemnification is because the State cannot indemnify any party; it is still subject to approval, availability and release of funds.

Director Smith commented that as the document has been used quite some time ago, this might be a good opportunity for staff to determine what is a right balance between the protection of the State and the scope of work for the developer. She encouraged staff to do this, as this would in turn encourage more developers to participate in future projects.

The Chair asked Deputy Attorney General Sandra Ching to convey to her associates the Board's comments about the Agreement.

There being no further discussion, the motion was unanimously carried.

APPROVAL OF REVISED INTERIM CONSTRUCTION LOAN TERMS WITH THE DEPARTMENT OF HAWAIIAN HOME LANDS FOR THE VILLAGES OF KAPOLEI, VILLAGE 8, "KAUPE`A" HOUSING PROJECT AND AUTHORIZATION TO THE EXECUTIVE DIRECTOR OR DESIGNEE

Staff's recommendation was presented as follows:

That the HCDCH Board of Directors:

1. Approve the revised Interim Construction Loan terms with the Department of Hawaiian Home Lands for the Villages of "Kapaupe`a" Housing Project.

2. Authorize the Executive Director or Designee to Finalize and Execute an Interim Construction Loan Agreement subject to the terms as described in the body of this For Action item.

Subject to:

1. Approval and ratification by the Hawaiian Homes Commission.

2. Availability of Dwelling Unit Revolving Funds.

3. Approval and release of funds by the Governor.

4. Compliance with all rules and regulations and such other terms and conditions as may be required by the Executive Director.

Director Thompson moved, seconded by Designee Manayan

That staff's recommendation be approved.

TO FINALIZE AND EXECUTE AN INTERIM CONSTRUCTION LOAN AGREEMENT

Acting Development Section Chief Tom Otake reported that since the previous approval by the Board on April 14, 2005, the average sales price for the project has changed from $182,689 to $243,353 for an increase of approximately $60,664 per unit primarily due to cost increases.

In a letter from the Department of Hawaiian Home Lands (DHHL) dated November 1, 2005, the requested changes to the previously approved interim construction loan terms were outlined as follows:

	Currently Approved Term	Requested Revised Term
Loan Amount	$59 million with peak loan draw of $10 million	$10 million lump sum at loan closing
Term	36 months	36 months with option to extend the term based on written mutual agreement between both parties
Interest Rate	3% Simple Interest accrued on monthly basis	3% Simple Interest compounded monthly, paid annually
Loan Fee	1 Point	1 Point to be paid at Closing
Repayment	Repayment of principal and interest from application of net sales proceeds from sale of homes at closing	Lump sum payment at the end of the loan term
Pre-Sales Requirement	3:1 pre-qualified buyers or 1:1 qualified buyer prior to start of housing construction	No pre-sales requirement

Mr. Otake stated that HCDCH has included in the revised loan terms to include that the loan funds shall be limited for the development of the Villages of Kapolei, Village 8, Kaupe`a project and no other purpose. Also that the DHHL Commission pledge and ratify, the amount of the loan from their State Funding in the year the loan is to become due and payable, as a prerequisite for the execution of the revised interim construction loan. This was to ensure that the fiduciary duty of HCDCH is met as in the original loan term there were assurances of repayment in place that would be eliminated in the revised loan term.

Mr. Otake then introduced Micah Kane of DHHL to answer any questions that the Board may have of DHHL.

Director Jung asked if the 1% loan fee is always charged to a sister agency to which Mr. Otake said that it is not mandatory and that the Board may waive the fee. Chief Planner Janice Takahashi stated that it is in the Administrative Rules and that she will report back to the Board as to whether or not the agency may charge the 1% loan fee.

Mr. Kane then addressed the Board by thanking staff to continuing to work together with his staff on the project. He then referred to the proposed elimination of the pre-sales requirement. Due to the rising construction costs, the project was restructured into three phases in order to encourage more competitive bids from a larger pool of contractors. However, this still resulted in a 30-40% increase in the original construction cost. In the first phase of the project that will hold its lot selection in a few days, there are 700 pre-qualified applicants for the initial 76 units. The pre-qualified list has been much greater than anticipated. The pre-qualified applicants, who were not selected, are then placed on the lists for the next two phases. However, should the pre-sales requirement be in place, the 3:1 ratio couldn't be met as the project is being done in phases.

Mr. Kane further stated that in its attempt to meet its fiduciary duties, HCDCH has also required that $10 million of the lump sum loan be held in a trust fund. This then decreases the amount of their cash flow. In order to be able to use this amount, DHHL would like to request some other alternative that can be used as security.

Mr. Otake commented that a Loan Note or Promissory Note might be an alternative to release the $10 million in the trust fund due to the sister agency relationship.

Director Smith asked if the $30 million per year is guaranteed until 2013 for DHHL, would it be possible to place a lien against the last payment in 2013 of $10 million in order to not only provide HCDCH with security, but also releasing some of the assets of DHHL at the time the construction is being done.

Mr. Otake stated that although the interest payments of the loan will be paid monthly, the principal balance will be payable at the end of 36 months which would be 2009. Ms. Aveiro stated that in the For Action, page 2, Additional HCDCH Requirements, may be changed in order to accommodate DHHL's request. She then recommended that it be changed to read:

> 2. That the DHHL Commission pledge and ratify, the amount of the loan from their State Funding ~~in the year~~ <u>one year after</u> the loan is to become due and payable, as a prerequisite for the execution of the revised interim construction loan.

Designee Manayan then moved, seconded by Director Smith

> That the recommended change by staff to page 2 of the For Action be approved.

The motion was unanimously carried.

Ms. Aveiro then referred back to the question of whether the Board may waive the loan fee. In the Administrative Rules, it states that "loan fees of 1.0% -2.5% to be determined by the Board on a case-by-case basis and fees may be charged." Therefore it would be at the Board's discretion to charge or not.

The Chair then asked if the members of the Board would like to amend the For Action relative to the loan fee.

Director Jung then moved, seconded by Designee Manayan

> That page 2 of the For Action, E, Revised Interim Loan Terms, Loan Fee changed to None.

The motion was unanimously carried.

The Chair then asked if there was any further discussion on the main motion to approve the revised Interim Construction loan terms with DHHL as amended.

There being no further discussion, the motion was unanimously carried.

REQUEST TO APROVE THE ALLOCA-TION OF 2005 LOW-INCOME HOUSING TAX CREDITS TO THE HOMELESS SOLUTIONS INC. FOR THE WAIANAE SUPPORTIVE HOUSING PROJECT ON OAHU, TMK: 8-5-028-044

Staff's recommendations was presented as follows:

That the Board of Directors of the Housing and Community Development Corporation of Hawaii:

A. Approve the allocation of up to $425,000 of annual federal and $127,500 of annual state low income housing tax credits to the Homeless Solutions, I nc. for the Waianae Supportive Housing project subject to the terms as described in Section III, Subsection F and the following project specific conditions:

1. The Developer's Fee and Overhead of this project does not exceed $320,000.

2. Submittal of an updated Market Study addressing the ability of the project to serve tenants at the LIHTC restrictions upon submission of documents substantiating that the project has met its 10% Carryover requirement.

B. Authorize the Executive Director to approve all actions and undertake all tasks necessary to effectuate the purpose of this For Action.

Director Thompson moved, seconded by Designee Oliva

That staff's recommendation be approved.

Finance Branch Manager Darren Ueki introduced Terry Brooks representing Homeless Solutions Inc. (HSI).

Mr. Ueki reported that a total of four Low Income Housing Tax Credits (LIHTC) applicants applied for the 2005 tax credits by the January 7, 2005 deadline. The applicants requested an aggregate of $2,174,743 in annual federal tax credits and $642,422 in annual state tax credits.

On May 19, 2005 the HCDCH Board of Directors approved LIHTC awards to Pacific Housing Assistance Corporation for the Courts and to the Courtyards at Mililani Mauka. Staff deferred recommending to the Board on the Waianae Supportive Housing Project and the Nanaikeola Phase II Senior Apartments subject to resolution of outstanding issues in their applications.

Consideration for the Waianae Supportive Housing Project was subject to the applicant resolving several issues by October 24, 2005. Major issues included validating that the project is feasible; that the project receive commitment of Project Based Section 8 vouchers or provide documentation that it is feasible without the Section 8 vouchers. The applicant has made significant progress in the development of the project. Additionally it has provided the necessary documentation to substantiate the operational feasibility of the project without Section 8 vouchers.

The applicant has also changed its project's unit mix and unit count from the initial application. This is considered a substantial change and is not allowed during the evaluation process as it compromises the integrity of the competitive process. However, since the funding round did not have a greater demand for the LIHTC awards, staff has continued to evaluate this project based on the availability of the LIHTC.

Based on an update submitted by the applicant, the project now appears to be feasible with the newly proposed unit mix. However, staff is recommending approval of the LIHTC with the following reservations among others:

1. The applicant's ability and experience in developing a LIHTC project is questionable as the applicant has returned an award of LIHTC in the past due to its inability to sell the credits to an investor. In the applicant's update, it proposes to lease 20 studio units to the Waianae Community Outreach to operate the transitional housing. Information regarding the competency in operating and managing an LIHTC project by the proposed operator was not submitted.

2. The applicant has not had any experience in managing a LIHTC project. Staff encourages that the managerial staff receiving training and assistance in property/compliance management policies prior to leasing of the units. Another alternative would be to hire a consultant to assist in training its staff.

3. The project has not yet secured a construction contract which would make it necessary for the applicant to closely monitor its budget due to construction costs.

4. Numerous concerns regarding the design of the project should be addressed such as zoning and financing.

(The Chair left the meeting at 11:25 a.m.; meeting chaired by Secretary Henry Oliva)

Director Smith asked what was the relationship between HSI and Waianae Community Outreach.

Terry Brooks of HSI stated that there are two components of the project. The first has the long-term affordable housing consisting of 30 2-bedrooms that will be rented to low-income households and the second component consisting of 20 studios will be for transitional housing for couples operated by the Waianae Community Outreach. The transitional housing would among other things, assist those who have lost custody of their children due to lack of housing and this would then give the couples an opportunity to demonstrate that they are capable of providing housing for their families. Waianae Community Outreach is a leading agency in the Waianae area that provides services to the homeless population.

HSI has been doing business for approximately 15 years and are confident that the project can be a success.

Director Smith further asked if it were possible to have known beforehand about the allowable density of 50 units. Mr. Ueki stated that as staff reviewed the application, it learned that the proposed project had 5 more units than would have been allowed and thus brought it to the applicant's attention. This is when the unit mix began to change.

Mr. Brooks added that since the City & County of Honolulu (C&C) did not state in writing that the original variances that the State received on the property from the C&C approximately 10-12 years prior was not in force, the first project design was for 55 units.

Director Smith then asked if HSI would be working with an entity that would be marketing the tax credits. Mr. Brooks stated that there has been some interest expressed by both local and mainland investors. A major local buyer of tax credits has indicated in writing that they are prepared to make an offer to them once the approval by HCDCH is received.

Director Thompson asked about the other financing components. Mr. Brooks stated that there is $5 million in HOME grant funds from the C&C $500,000 from the State in Capital Improvement Project Funds (CIP) and the tax credits would complete the financing structure.

Director Thompson asked if there would be any problems about the sewer connection application to the C&C for 50 1-bedroom units instead of the currently proposed mix of studios and 2-bedrooms. Finance Specialist Dean Sakata stated that would be an issue that the applicant needs to resolve in its development of the project.

(The Chair returned to the meeting at this time - 11:35 a.m.)

Director Thompson asked if there were other problems that the developer may face. Mr. Ueki answered that there are other issues that must be resolve, however, the fact that there are tax credits available is to the developer's advantage. However, staff believes that there has been substantial progress by the applicant and the issues can be resolved.

Mr. Brooks also stated that due to federal funds from the C&C, coupled with the land from the State, there is the opportunity to address the homeless issues in the Waianae area should this project be allowed to move forward. It is very crucial to receive the tax credits now while the other funding is in place.

Director Smith asked if HSI secured the bank loan of $3.9 million that is needed for the interim construction and when would they be allowed to sell the tax credits once it is approved.

Mr. Ueki stated that the tax credits may be sold depending on how the financing is structured where it could be done at the beginning of construction, during or even after construction is completed.

Mr. Brooks stated that the tax credits would more than likely be sold after construction is complete.

Director Smith summarized that $4.85 million will be from the HOME funds, $500,000 from State CIP, $3.9 million from an interim loan and the applicant has $1,175 in equity in the project. Mr. Brooks stated that that was correct.

There being no further discussion, the motion was unanimously carried.

Director Smith asked if in future proposals, staff also provide a listing of the respective Board members of the applicants' with their resumes, as this would be a useful tool in decision making.

REQUEST TO AMEND INCOME RESTRICTIONS FOR THE LOW INCOME HOUSING TAX CREDIT AWARD AND RENTAL ASSISTANCE REVOLVING FUND LOAN TO FINANCE THE 2020 KINOOLE SENIOR RESIDENCES LOCATED IN HILO, ISLAND OF HAWAII, TMK: (3) 2-2-41:10

Staff's recommendation was presented as follows:

That the Board of Directors of the Housing and Community Development Corporation of Hawaii:

A. Approve an amendment of income restriction from 50% AMGI to 60% AMGI for the Federal and State Low Income Housing Tax Credit Award and the Rental Assistance Revolving Fund loan.

B. Authorize the Executive Director to undertake all tasks necessary to effectuate the intent and purposes of this For Action.

Director Smith moved, seconded by Designee Oliva

That staff's recommendation be approved.

Finance Branch Manager Darren Ueki stated that the project is a 30-unit affordable rental project for the elderly located in Hilo. The owners have requested an amendment to the income restriction from 50% of the area median gross income (AMGI) to 60% AMGI for the entire project. In its application, the owner assumed that the project would received project based Section 8 vouchers which would provide subsidy to the project based on Fair Market Rents and not the restricted Low Income Housing Tax Credit (LIHTC) rent. The contract rent for the Section 8 vouchers is now equal to the LIHTC restricted rent as set by HUD. The owner has therefore requested an increase in the income restriction to make the continuing operation of the project more feasible.

Staff recognizes that at the 50% AMGI the project has a positive cash flow of $28.45 per unit per month before reserves. This could result in a future deficit should operating expenses increase such as electricity. Should the income restriction be changed to 60% AMGI, the cash flow will be strengthened and could possibly absorb future increases in expenses. The owner has agreed to fund an additional $25,000 per year in a reserve account that will be used to fund project repairs or increased expenses.

Mr. Ueki introduced Keith Kato representing the owner.

Director Smith asked if there could be a range of the AMGI that the owner would be able to use as a guideline without having to always get Board's approval. Mr. Ueki answered that during the application process, the developer will specify a particular AMGI.

Director Smith further asked how the new HUD guideline has affected the project using an example of a tenant earning $1,000 and paying 30% or $300 for the rent, and assuming that the fair market rent is $500.00. Mr. Ueki stated that in the past the Section 8 voucher would be able to pay the $200 difference to the project's owner. However, due to the change in HUD's fair market rent, it is now $425 and the Section 8 voucher then becomes $125. Although the owner has indicated that it can probably be able to operate with the lesser amount that it will receive from the Section 8 program, its cash flow will decrease significantly. Staff therefore believes that since their request is credible and is recommending approval.

Director Smith then asked if other projects will be affected due to the adjustment downward of the fair market rent by HUD. Finance Specialist Dean Sakata answered that this is a unique issue as HUD has restricted the Section 8 voucher to the lower amount of either the fair market rent or the LIHTC restricted rent.

Another project has a partial Section 8 component but its cash flow will probably not be as affected as much as this; other projects are not using project based Section 8 vouchers.

Designee Oliva asked how the 10% difference in the AMGI would affect the number of eligible tenants for the project. Mr. Ueki stated that the 50% AMGI residents would also be able to apply for the project despite raising the AMGI to 60% thus increasing the amount of eligible residents.

There being no further discussion, the motion was unanimously carried.

APPROVAL OF PROPOSED FUNCTIONS AND ORGANIZATIONAL STRUCTURE FOR THE FINANCE AND DEVELOPMENT AND PUBLIC HOUSING AGENCIES, AND PROPOSED LEGISLATION TO IMPLEMENT ACT 196, SESSION LAWS OF HAWAII 2005

Staff's recommendation was presented as follows:

> To meet the intent of Act 196, SLH 2005, it is recommended that the HCDCH Board of Directors approve the following:
>
> 1. The proposed organizational structures set forth in Exhibits A-1 and B-1; and
>
> 2. The legislative proposals set forth in Exhibit C which includes added functions for the FD and PHA.

Designee Manayan moved, seconded by Director Jung

> That staff's recommendation be approved.

Chief Planner Janice Takahashi stated the For Action provides a status report on the reorganization efforts, presents alternatives for reorganization, discusses the functions and organizational structure for the finance & development agency (FD) and public housing agency (PHA), and seeks approval of proposed legislation to effectuate the purposes of Act 196.

Ms. Takahashi reviewed the draft plan as approved by the HCDCH Board on September 22, 2005 noting that it included the transferring of state assets (state low income, elderly and teacher housing) from the PHA to FD. Since that time, a meeting with the Governor was held to update her and other cabinet members of the proposed reorganization. Due to concerns raised on the proposed transfer of State assets, another meeting was held which included the Governor's Policy Office, Departments of Budget & Finance (B&F), Business, Economic Development and Tourism (DBEDT) and Human Services (DHS) to discuss organizational structures that would support the overall objectives of improving the management of public housing and increasing the housing supply. A final meeting was held with the Governor at which it was agreed that the State assets should remain with the PHA.

Ms. Takahashi then reviewed the organizational structure and functions of FD pursuant to Act 196. It will be administratively attached to DBEDT and will be governed by a 9-member Board of Directors and will also have an Executive Director and Executive Assistant. She also pointed out the FD will have a property management function as it will be managing 11 rental properties. Other than the support offices, FD will have the Finance and Development Branches within the organization. It will consist of 82 positions with a budget of approximately $30.4 million. New positions will be requested for FD.

As for PHA, there would be 369 positions with a budget of $98.5 million. It will be governed by a 9-member Board of Directors and also have an Executive Director and Executive Assistant. The strategy of the reorganization is to split the agency with the least amount of changes from the existing approved organizational chart of HCDCH. After the split, the organizational charts can be changed to conform to the needs of each agency. Within the PHA, there will be four main programs: construction management, homeless programs, property management and Section 8 subsidy. Ms. Takahashi noted that the budget does not include new positions that will be proposed for the PHA.

Ms. Takahashi continued with proposed legislation that would include:

> Changing the names of FD to Hawaii Housing Finance and Development Corporation and the PHA to Hawaii Public Housing Authority;
>
> Allow the Board to set the salaries for the Executive Director and Executive Assistant of both agencies;
>
> Provide the FD and PHA with specific authority to enter into agreements with the federal government (as requested by HUD);

The Chair asked for clarification as to exactly what the Board will be approving in the For Action. Ms. Takahashi stated that the Board will be approving the proposed legislation and only certain amendments are being proposed to Act 196. The proposed legislation does not include transferring the agency from DBEDT to B&F or transferring the State assets from PHA to FD.

Ms. Takahashi further stated that $366,303 would be requested for the FD to create six new positions. Six additional positions will be re-described but do not require legislation.

Regarding the PHA, Ms. Takahashi stated that a new chapter in the Hawaii Revised Statutes will be created and a request to change its name. The composition of the Board of Directors will be requested to be changed by replacing one of the eight public members with a representative from the Office of the Governor to maintain a common link with the FD agency. Another proposed change is to allow eligible residents who are directly assisted by the PHA under the federal public housing or Section 8 tenant-based assistance program to apply to serve as the resident member. This would allow more eligible residents with the opportunity to serve on the Board. Another amendment would amend the State Rent Supplement Program to allow subsidies to be project-based in State low income housing rather than limited to the private market.

Ms. Takahashi pointed out that one substantive function of the PHA would be to provide the PHA with bond authority and thereby establishing a Public Housing Revolving Fund for bond financing transactions. HUD does not require public housing agencies to have bond authority. However, this would provide the PHA with the flexibility to leverage its Capital Funds and Operating Funds to renovate public housing project or participate in mixed finance public housing projects.

(The Chair left the meeting at this time - 12:10 p.m.; meeting chaired by Secretary Henry Oliva.)

Three new positions for the PHA will be requested with an approximate budget of $99,427. A request of $1.8 million from the Capital Improvement Program to renovate the School Street office will also be submitted.

Other legislation will be submitted such as the acceleration of the transfer of the Teachers' Housing Program from HCDCH to the Department of Education. Limiting the applicability of the mandated federal eviction process to tenants residing in federal public housing and not the state public housing. Also in order to conform with the current Administrative Rules, it will be requested to revise the time period in which a public housing tenant to request a grievance hearing from 30 days to 10 business days. Another amendment being proposed would be to permanently repeal the administrative appeal hearing for evictions from public housing that has made the process extremely efficient.

RECESS

Director Jung moved, seconded by Director Smith

That the meeting recess at 12:15 p.m.

The motion was unanimously carried.

EXECUTIVE SESSION

Director Jung moved, seconded by Designee Manayan

That the Board reconvene and meet in Executive Session at 12:20 p.m. to discuss matters as set forth in the agenda under Executive Session.

The motion was unanimously carried.

*   *   *   *   *   *   *

(The Chair returned to the meeting at 1:55 p.m,; meeting reconvened in regular session with discussion continuing on agenda Item No. 7.)

Director Smith commented about the proposed amendment to change the names of the two entities in spite of the fact that the Legislature selected names for each agency. Designee Manayan also commented that in meetings with a couple of the House legislators, it appeared that they would be receptive to suggestions from HCDCH in fine tuning the legislation to make it work.

The Chair commented that in a previous Board meeting, discussion had taken place about the subject matter. This may be a minor issue compared to others that it may be best to delete it from the agency's proposed amendments.

Director Smith also commented that in the meetings held with the other Departments, was that should the split proceed, it should be done without adding additional personnel. Although some positions may have to be re-described, it is believed that the existing personnel should be able to conduct the agencies' businesses.

Director Thompson asked for clarification when the salaries of the Executive Director and Executive Assistant are tied to a position. Executive Director Stephanie Aveiro stated that it would be the same as the salary of the Director of the Department of Human Resources and Development (DHRD). Director Thompson commented that when the Board was initiating a nation wide search for the Executive Director, it was mentioned that the compensation could be as much as $120,000 - $135,000. Ms. Aveiro stated that it is in the statutes that the Executive Director be compensated at the same level as the Director of DHRD.

The Chair agreed with Director Thompson that the compensation was in that range as they had studied other organizations that were comparable in the complexity of the agency that reflected a salary of that nature was warranted. Ms. Takahashi clarified that the compensation of the Director of DHRD is set by statute and the Executive Director's compensation is a percentage of that. The Executive Assistant's compensation is then a percentage of the Executive Director's. This then does not allow any flexibility for the Board to set the compensation that is what the proposed legislation is requesting.

Ms. Takahashi referred back to the request of the name change. She noted that both names of the agency would be referred to the Housing Administration. In discussion with the Legislative Reference Bureau, it was recommended that another name be used as Administration also refers to the Executive Branch or the administration of a program that can cause confusion in the future.

The Chair then asked if any Board member would like to amend any portion of the organizational structures as set forth in Exhibits A-1 or B-1 or amend any of the legislative proposals.

Director Thompson commented that the organizational structures of both agencies look very much identical to one another with both having the same functions. Ms. Aveiro stated that there was discussion about that but it was determined that changes can be done after the split but not during the split. She acknowledged that the charts are similar as they are based on the approved organizational chart of HCDCH.

Director Smith asked if Act 196 stated that an organizational chart must be submitted to the Legislature. Ms. Takahashi answered that it did not.

Director Smith then suggested that the organizational charts not be submitted to give the agency more flexibility. Ms. Aveiro acknowledged that it need not be submitted but that staff wanted to share it with the Board and get the approval in order to move forward with the split.

Director Thompson commented that Exhibit C, which describes the legislative proposals, includes many proposed amendments not relevant to the organizational change.

Ms. Takahashi acknowledged that the proposed amendments are four separate bills with three of them are not relevant to effectuating Act 196 but which can help the agency perform better.

Director Smith asked when the proposed bills would need to be submitted. Ms. Takahashi answered that it would be 20 days prior to the convening of the Legislative session. The other three proposed bills that are not relevant to Act 196 then could not be submitted, as it does not amend Act 196. Ms. Takahashi stated that Act 196 was broad enough that other proposed legislation could be submitted as the bills are all related to enable the agency to perform better.

Director Smith commented that if the other three proposed amendments were released on the 20th of December, then it would not be part of the Governor's administrative package. Should the Board however decide to go forward with the proposed amendments, then this would be contrary to what has been done in the past.

Director Thompson also commented that to only focus on the proposed bill that relates to Act 196 would be better and remove the other proposed bills.

The Chair clarified that by removing the other three bills, does not necessarily mean that the Board is not supporting them, but that they proceed on a different track.

Director Thompson then moved, seconded by Director Smith

> That staff's recommendation be amended to read:
>
> To meet the intent of Act 196, SLH 2005 it is recommended that the HCDCH Board of Directors approve the following:
>
> 1. The proposed organizational structures set forth in Exhibits A-1 and B-1; and
> 2. The legislative proposal~~s~~ HMS-10 (06), as set forth in Exhibit C ~~which includes added functions for the FD and PHA~~.

There being no further discussion on the amendment, the motion was unanimously carried.

Director Thompson asked about the $708,300 request for a new computer network for the FD agency. Ms. Takahashi stated that the current computer network for the entire agency was primarily paid for with Federal funds therefore it is planned to let the PHA have it and the FD obtain its own network.

The Chair then asked if there were any amendment to HMS-10 (06) relating to the proposed name change. There was no motion to amend.

The Chair then asked if there were any motion relative to establishing new positions.

Director Smith moved

> That all references to establishing new positions be deleted and reclassify existing vacant position as necessary to effectuate Act 196 in HMS-10 (06).

Director Jung seconded the motion.

Ms. Aveiro commented that when the Legislature decided to split the agency, it did not take into account the actual positions necessary to do the work. The work is not evenly split and the current work force is not able to do the actual work. Positions could be re-described, however those vacant positions are still needed as well as additional positions to do the work for the two agencies.

The Chair then called for a vote on the motion. The votes, on roll call, were as follows:

AYES: Director Francis L. Jung
Director Linda Smith
Director Travis O. Thompson

NAYS: Designee Rick Manayan
Designee Henry Oliva
Director Charles Sted

The motion to amend staff's recommendation was not carried.

The Chair asked if there was any further discussion regarding the main motion to approve staff's recommendation. Director Thompson asked for clarification about staff's recommendation to the composition of the two Boards. Ms. Aveiro stated that the Board for FD included a representative from the Governor's Office whereas the Board for PHA did not. Staff is recommending that a representative be also appointed to the Board for the PHA.

The Chair then asked for a vote on staff's recommendation as amended. The votes, on roll call, were as follows:

AYES: Director Francis L. Jung
Designee Rick Manayan
Designee Henry Oliva
Director Charles Sted
Director Travis O. Thompson

NAYS: Director Linda Smith

The motion to amend staff's recommendation was carried.

Ms. Aveiro stated that there was no discussion on the Capital Improvement Program appropriation of $1.8 million for renovations at the School Street office. The Chair stated that no Board member had any comment to offer so staff can move forward on that request.

ASSET MANAGEMENT SUBCOMMITTEE

The Chair reported that the Asset Management Subcommittee met via telephone conference call. Another subcommittee meeting followed with the Executive Director. After reviewing the consultant's report, the follow questions were developed for the full Board's consideration:

- Generate capacity for transformation or work with what we have?
- Generate capacity by borrowing on CAP fund or monetize assets or both?
- Pilot project or larger scale transformation?
- One-for-one availability of units?
- Fix existing worst units first or quick fixes that make more units available?
- If monetize, state or federal property first?
- If pilot project, engage a consultant?

Questions were provided to give the full Board an opportunity to formulate any questions or proposals at the next Board meeting which will be an action item at the next Board meeting. After the action by the Board, the subcommittee will provide the consultant with the Board's decision and ask the consultant to follow up on the Board's guidelines.

Executive Director Stephanie Aveiro commented that there have been delays in the report from the consultant, the U.S. Navy. However, such things such as how payment is to be made for the report and the lack of details in the initial report may have contributed to much of the delays. Staff asked that the report provide more depth, more details, which again delayed the final product. The Chair commented that the consultant has demonstrated in the meetings that they are very knowledgeable and could be a great asset to the agency.

Director Thompson asked for clarification on the term "transformation."

The Chair stated that the question was to ask whether or not the Board would like to keep what assets the agency has and use whatever resources that are available now or should there be a bold step to monetize the assets and re-deploy them in different ways that is being done now to create more leverage. Using leverage would enable bold transformation.

APPOINTMENT OF ADDITIONAL SUBCOMMITTEE MEMBER

Director Thompson asked if there is a document that would be available to assist the Board in its decision-making as to the questions that were posed. The Chair stated that there is a working document that is available to the subcommittee members. The Chair then appointed Director Thompson to the Asset Management Subcommittee.

NON-CEDED LAND SUBCOMMITTEE REPORT

Executive Director Stephanie Aveiro stated that there was a meeting held on October 27, 2005 with Directors Jung and Smith. The meeting included members from the Departments of Land and Natural Resources (DLNR), Hawaiian Home Lands (DHHL) and Transportation (DOT).

Director Jung stated that the meeting was an excellent meeting. HCDCH now has title to the 272 acres in North Kona. The property is adjacent to land owned by the DHHL that would then total approximately 400 acres for development of homes in North Kona. A significant issue of the water resource was discussed. It was estimated that approximately $19.7 million would be required to build the necessary water infrastructure. DLNR believed that there was approximately $12 million available. In a subsequent discussion with the County, there may be approximately $7.7 million that the County could contribute for this effort. Department of Agriculture has also indicated that there may be funds available for affordable housing. Director Jung further reported that the Chair and Vice Chair of the County Council and the Mayor's Office have agreed to meeting with the Subcommittee to discuss the joint venture for this project.

Director Smith commented that DHHL has draft regional plans for 16 areas across the state identifying the stakeholders that are involved in a particular area. Community leaders and landowners were also identified. The area in Kona is adjacent to not only land owned by DHHL but also by Queen Liliuokalani Trust. Subsequent to this, DHHL has also listed what are the land use designations, zoning at the County levels, which are then prioritized for development as most of the land is zoned agricultural. As Director Jung indicated, the first priority to developing the land in North Kona owned by HCDCH, DHHL and the Queen Liliuokalani Trust is the water infrastructure that would require a well system. The next priorities are the roads, sewer lines, and then the electrical/utility lines. Each priority has an approximate cost to give a full picture as to the actual cost for the development of the land. Determination of how the total cost would be paid for from the various levels of government as well as private landowners would be another step to be done. Another factor that needs to be determined is whether or not HCDCH should retain title to the land or transfer it to another party for the development of the land.

Director Jung commented that if the state retains the land, even if it is a Master Lease, would the State be subject to the David-Bacon Act. Should the State be subject to this Act, then it may not be feasible to develop affordable housing. However, if the State transfers the land to another party, then the Act may not be applicable. An opinion from the Office of the Attorney General would provide valuable information on how the project can progress. He stressed the need for the coordination with the County as this would streamline all the permitting efforts and help expedite the process.

Ms. Aveiro stated that staff is moving forward with subdividing the north boundaries of the North Kona land which is essential in the development of the land.

CHAIR'S REPORT

The Chair reported on the meeting held on November 4, 2005 with himself, Executive Director Stephanie Aveiro and Sen. Donna Mercado Kim. The discussion on the various issues was discussed at length and it was agreed to end the exchange of letter writing. The Chair will write a letter to the Senator that the Board will be mindful of the concerns and issues raised by the Senator in the future.

The letter from the Office of Information Practices (OIP) was discussed a little in the beginning of the meeting as well as during the Executive Session.

ADJOURNMENT

There being no further business, Director Thompson moved, seconded by Designee Oliva

That the meeting be adjourned at 2:55 p.m.

The motion was unanimously carried.

____

LILLIAN KOLLER
Secretary

Approved: